

Legislation Intended to Prevent Tax Increases on the Beneficiaries of the Mortgage Settlement Agreement

WASHINGTON – **Representatives John B. Larson (CT-01) Jim McDermott (WA-07), and Shelley Berkley (NV-01)** introduced the “*Homeowners Tax Fairness Act*” today to protect homeowners and servicemembers who were wrongly foreclosed on and entitled to relief under the historic national mortgage settlement from additional tax burdens.

The \$25 billion settlement, which represents the largest financial recovery obtained by the states’ attorneys general since the 1998 Master Tobacco Settlement, was reached with Bank of America, J.P. Morgan Chase, Wells Fargo, Citigroup and Ally Financial. It will allow hundreds of thousands of distressed homeowners to stay in their homes through enhanced loan modifications and principal reduction, and it will also provide payments to victims of unfair foreclosure practices. Unfortunately, under current law, those settlement payments would subject the homeowners and servicemembers who receive them to additional tax burdens. For instance, homeowners receiving relief in the form of mortgage debt forgiveness and direct cash payments for wrongful foreclosure could be subject to federal income tax. Moreover, additional taxes would be owed on the payments made to servicemembers who were wrongfully foreclosed on while deployed overseas.

To prevent that injustice, the *Homeowners Tax Fairness Act* would extend the exclusion for debt forgiveness on a primary residence throughout the term of the settlement agreement, and exclude the relief payments from income for homeowners and servicemembers.

“The mortgage settlement was intended to provide relief to Americans who were foreclosed on unlawfully and help people stay in their homes. □ To force them to turn around and pay Uncle Sam is simply adding insult to their injury,” added Congressman John Larson. **“This legislation will make sure that doesn’t happen. It’s simply the right thing to do.”**

“I applaud the work of the State Attorneys General in brokering this settlement to

provide needed relief to America’s homeowners and service members.□ This level of consensus is rare, and speaks volumes to how important this relief is,” said Congressman Jim McDermott.

□ **“Now it’s our turn to ensure that every bit of negotiated relief goes to the people who need it the most.□ Collecting federal income tax on relief intended for struggling homeowners is not only bad policy, but is simply wrong.”**

“We need to protect homeowners and servicemembers who have already been the victims of fraud or unfair foreclosure practices from also being hit with a new tax bill resulting from this mortgage settlement.□ This legislation will prevent homeowners in Nevada and nationwide who receive refinancing help, principal reductions or direct payments under this settlement from having to literally pay for the fraud and deception committed by banks and members of the mortgage industry,” said Congresswoman Shelley Berkley.

□ **“Acting now will help protect an estimated 1.7 million homeowners across the U.S. – including 68,000 in Nevada – who are eligible to take part in this settlement and who deserve the protections this bill will offer.”**

The Larson-McDermott-Berkley bill also considers the particularly egregious actions taken by the five largest banks in violation of the Servicemembers Civil Relief Act. Over the past three years, the five largest servicers violated the law and wrongfully foreclosed or overcharged mortgage interest on servicemembers, many of whom were deployed overseas in combat zones. Accordingly, the Homeowners Tax Fairness Act not only excludes this relief from income to servicemembers, but denies these banks the ability to deduct these payments from their federal income taxes.

Reps. Larson, McDermott and Berkley – each of whom is a member of the Ways and Means Committee, the U.S. House of Representatives’ tax-writing panel – introduced the bill with the support of every Democratic member of the Ways and Means Committee.

Specifically, this legislation will:

- Extend the exclusion from income for debt forgiven on a primary residence, originally enacted in 2007 for the three year period anticipated by the settlement agreement;
- Extend the deduction for mortgage insurance for three years;
- Exclude from income the direct cash payments for wrongful foreclosure;
- Exclude from income the payments to servicemembers wrongfully foreclosed on or overcharged mortgage interest in violation of the Servicemembers Civil Relief Act; and,
- Deny the deduction to banks for relief payments made in violation of the Servicemembers Civil Relief Act.

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